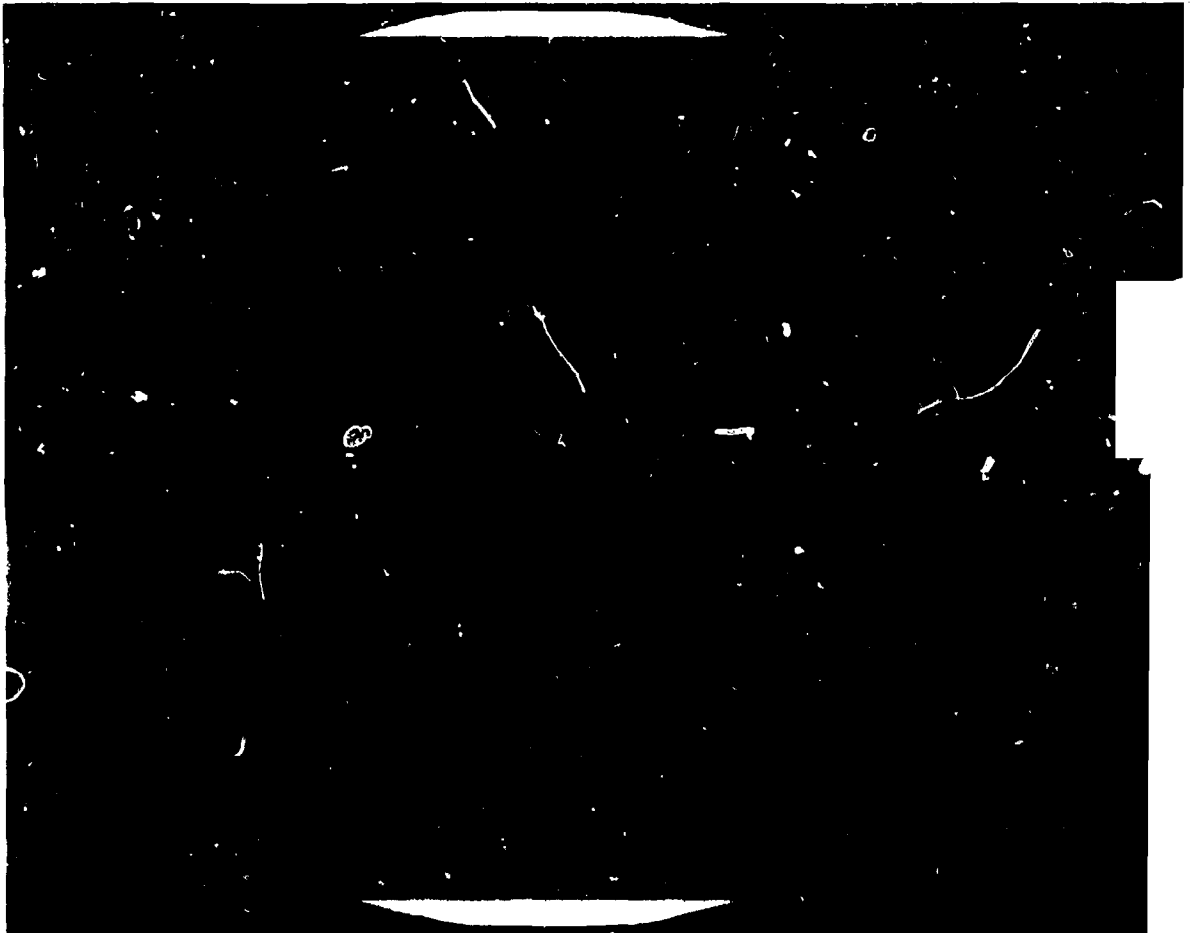


BACKGROUND PAPER

# **The Effects of the Tokyo Round of Multilateral Trade Negotiations on the U.S. Economy: An Updated View**

July 1979



Congress of the United States  
Congressional Budget Office

THE EFFECTS OF THE TOKYO ROUND OF MULTILATERAL  
TRADE NEGOTIATIONS ON THE U.S. ECONOMY:  
AN UPDATED VIEW

The Congress of the United States  
Congressional Budget Office

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## PREFACE

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This paper, prepared at the request of the Subcommittee on International Trade of the Senate Finance Committee, is a companion piece to an earlier Congressional Budget Office report, U.S. Trade Policy and the Tokyo Round of Multilateral Trade Negotiations. The earlier report was published before the conclusion of the Tokyo Round negotiations and thus contained no detailed treatment of the final results of the negotiations. This report provides such a detailed treatment. For discussions of the history and purposes of the Tokyo Round negotiations, readers should consult the earlier report. In keeping with CBO's mandate to provide objective and nonpartisan analysis of issues before the Congress, this paper offers no recommendations.

The paper was prepared by C.R. Neu and Emery Simon of the National Security and International Affairs Division of the Congressional Budget Office, under the general supervision of David S.C. Chu. The authors wish to acknowledge the special assistance of Jerome La Pittus and Barry Goldberg, both staff members in the Office of the Special Representative for Trade Negotiations, who provided much of the information necessary for the timely publication of this report. Also assisting were Donald Henry, James Verdier, and Nancy Swope, all of the Congressional Budget Office. Robert E. Baldwin and William R. Cl'ne both commented on the draft of this paper, and the final product has benefited greatly from their suggestions. Responsibility for any errors, of course, remains the authors'. Francis S. Pierce and Robert L. Faherty edited the manuscript, which was typed for publication by Janet Stafford.

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Director

July 1979

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## SUMMARY

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The formal negotiation phase of the Tokyo Round of Multilateral Trade Negotiations (MTN) was concluded in Geneva on April 12, 1979, with 23 countries, including the United States, agreeing to a package of measures designed to reduce obstacles to international trade. Eighteen other countries endorsed only parts of the complete package. The agreements reached in Geneva included a multilateral reduction in tariffs, the establishment of new codes of conduct for international trade, some reductions in barriers to trade in specific commodities, and reforms of the framework of the General Agreement on Tariffs and Trade (GATT), the general set of principles that has governed international trade throughout the postwar period.

In accordance with the terms of the Trade Act of 1974, which gave the U.S. President authority to negotiate changes in U.S. trade policy, President Carter has submitted to the Congress the Tokyo Round agreements and the legislation necessary to implement these agreements. The Trade Act stipulates that the Congress must approve or reject the agreements and the legislation without amendment within 90 legislative days. The agreements will enter into force for the United States when and if the implementing legislation is approved by both houses of the Congress. The Trade Act gives the President power to reduce U.S. tariffs without subsequent Congressional approval. Accordingly, only the non-tariff parts of the Tokyo Round agreements require Congressional action.

### THE EFFECTS OF THE TOKYO ROUND AGREEMENTS

The overall effects of the Tokyo Round agreements on the U.S. economy are likely to be positive but small. By the time the agreements are fully implemented (as much as ten years in the future), the principal predictable effects are likely to be the following. (Excluded from all of these estimates are important long-term nonestimable effects, which are generally believed to be highly beneficial to the United States.)

- o The Tokyo Round agreements will cause almost no change in overall employment. Estimates of the effects of tariff reductions on total employment in the United States range from a loss of 300 jobs to a gain of 2,300 jobs. The combined effect of tariff reductions and changes in nontariff barriers to trade will be, according to one estimate, a gain of 15,000 jobs.
- o The sectoral distribution of employment changes will favor the U.S. agricultural sector and a number of U.S. industries employing sophisticated technology and highly skilled labor. Adversely affected by increased competition from abroad will be some U.S. industries relying on relatively unskilled labor and older, well-known technologies. In no industry are decreases in job opportunities resulting from the Tokyo Round agreements expected to be large enough to necessitate layoffs; normal economic growth and voluntary turnover of workers should be sufficient to absorb whatever reductions in job opportunities may be caused by the Tokyo Round agreements.
- o The regional distribution of employment gains and losses will be close to uniform. No region of the United States will experience other than very small changes in employment as a result of the Tokyo Round agreements. In the West and the Midwest, job opportunities will increase very slightly; in the East and the South, they will decline slightly.
- o The Tokyo Round agreements should lower U.S. consumer prices. Estimates of the reduction in consumer prices range from 0.4 to 0.5 percent to (probably more realistically) 0.07 percent.
- o The evidence on how the agreements will affect the value of the dollar is mixed, but all studies agree that, whatever the direction of change, its magnitude will be very small.
- o Estimates of the total net benefit to the U.S. economy resulting from the agreements are in the range of \$1 billion to \$1.5 billion per year. Included in these estimates are only direct, near-term benefits. Some estimates of longer-term gains have gone as high as \$10 billion per year.

## MAJOR AGREEMENTS REACHED IN THE TOKYO ROUND

### Tariff Reductions

The major industrialized trading countries agreed to tariff reductions on a wide variety of items. With some important exceptions, these tariff reductions will be phased in over an eight-year period beginning January 1, 1980. In general, the less developed countries did not agree to tariff reductions.

Among the industrialized countries the size of tariff reductions varies--both as a percentage of existing tariffs and as absolute reductions in tariff rates. Summary Tables 1 and 2 show average depths of cut and average tariff rates prevailing before and after the reductions are fully implemented. On average, U.S. tariffs will be slightly lower after full implementation than will those of the other major participants, even though other countries made larger absolute reductions in tariff rates than did the United States. In general, reductions in agricultural tariffs were less than reductions in other tariffs.

U.S. negotiators made special efforts to protect U.S. industries thought to be especially sensitive to increased import competition, and available evidence suggests that they were largely successful. U.S. tariff reductions on the products of these industries are less than on other products, and for some items (particularly apparel) applicable nontariff measures will be made more restrictive. In only a very few U.S. industries will reductions in job opportunities over the entire eight-year period for phasing in tariff reductions amount to more than one percent of present employment. In all cases where reductions in job opportunities are expected, normal labor turnover should allow these work force reductions to take place without layoffs.

This special protection for vulnerable U.S. industries was not obtained without cost. In order to protect particular U.S. industries, U.S. negotiators presumably had to allow other nations to protect their own vulnerable industries, thus reducing potential export opportunities for some U.S. producers. Further, by protecting certain U.S. industries from lower-priced foreign imports, U.S. negotiators have limited the beneficial effect of the trade agreements on U.S. prices.

SUMMARY TABLE 1. AVERAGE DEPTHS OF CUT IN TARIFFS ON DUTIABLE IMPORTS: IN PERCENT

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports <u>a/</u>
United States	29.6	17.2	30.9	51.2
European Community <u>b/</u>	29.3	30.0	29.0	31.4
Japan <u>c/</u>	10.7	3.6	11.8	5.9
Canada <u>c/</u>	28.0	20.0	28.1	48.8

SOURCE: Office of the Special Representative for Trade Negotiations.

a/ Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

b/ Countries of the European Community include: West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Ireland, and the United Kingdom.

c/ For Canada and Japan, the figures shown refer to reductions in tariff rates actually applied. Both countries agreed to somewhat larger reductions in their respective "bound" rates--the maximum tariff rates allowed under the terms of the General Agreement on Tariffs and Trade.

#### Agreements on Nontariff Measures

Agreements on nontariff measures were a new feature of the Tokyo Round negotiations; previous rounds of trade talks had concentrated on tariff reductions. For this reason, and because nontariff practices are regarded as the major barriers to trade today, these nontariff agreements are generally seen as the most important elements of the Tokyo Round package. The agreements

are of three types: codes of conduct for international trade, reform of the GATT framework, and reductions in nontariff barriers affecting particular commodities.

Six major codes for the conduct of international trade were agreed to.

The Government Procurement Code requires that, in making decisions on nonmilitary procurement, governments and national entities under the substantial control of governments will give foreign producers treatment no less favorable than is given to domestic producers. This code is expected to result in a net increase in jobs in the United States.

The Subsidies/Countervailing Duties Code clarifies GATT policy regarding both government export subsidies and the imposition of countervailing duties. In agreeing to this code, the United States has undertaken not to impose countervailing duties without first determining that foreign subsidies are causing or threatening to cause injury to domestic U.S. industries. The code is not expected to have any immediate, direct effects on U.S. trade. In the longer term, it may serve to prevent the outbreak of trade wars resulting from increased government involvement in domestic economic activities.

The Anti-Dumping Code clarifies GATT policy toward dumping, the selling of goods in foreign markets below the prices at which similar goods are sold in domestic markets. Current U.S. practice generally conforms with the new code, and few changes are expected.

The Customs Valuation Code provides new guidelines for valuing imports for customs purposes. Its intent is to prohibit arbitrary escalation of import values for the purpose of increasing tariffs. Under the terms of the code, the United States will discontinue its use of the American Selling Price (ASP) method of valuation. For most ASP items, however, tariff rates will be adjusted to yield roughly the same tariffs under the new valuation procedures as under the old. The code is thus expected to have little effect on U.S. trade.

The Standards Code outlines procedures for setting and enforcing national health, safety, performance, quality, and labeling standards for imports. Its intent is to simplify compliance with such standards and to prevent their use as barriers to trade. Because standards are of particular importance for high-

SUMMARY TABLE 2. AVERAGE TARIFF RATES ON DUTIABLE IMPORTS BEFORE AND AFTER TARIFF REDUCTIONS: IN PERCENT

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports <u>a/</u>
United States				
Before	8.1	8.7	8.1	4.1
After	<u>5.6</u>	<u>7.2</u>	<u>5.6</u>	<u>2.0</u>
Difference	2.4	1.5	2.5	2.1
European Community <u>b/</u>				
Before	9.9	7.0	10.0	10.2
After	<u>7.0</u>	<u>4.9</u>	<u>7.1</u>	<u>7.0</u>
Difference	2.9	2.1	2.9	3.2
Japan <u>c/</u>				
Before	14.0	14.0	15.3	1.7
After	<u>12.5</u>	<u>13.5</u>	<u>13.4</u>	<u>1.6</u>
Difference	1.5	0.5	1.8	0.1
Canada <u>c/</u>				
Before	12.5	6.5	12.8	4.3
After	<u>9.0</u>	<u>5.2</u>	<u>9.1</u>	<u>2.2</u>
Difference	3.5	1.3	3.6	2.1

SOURCE: Office of the Special Representative for Trade Negotiations.

NOTE: Detail may not add to totals because of rounding.

a/ Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

b/ Countries of the European Community include: West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Ireland, and the United Kingdom.

c/ For Canada and Japan, the figures shown refer to reductions in tariff rates actually applied. Both countries agreed to implement larger reductions in their respective "bound" rates--the maximum tariff rates allowed under the terms of the General Agreement on Tariffs and Trade.

technology products, this code could be especially beneficial for the United States.

The Import Licensing Code provides some guides for import-licensing practices. It is intended to ensure that these practices are not used to restrict trade in a discriminating way. Among other provisions, it prohibits the rejection of applications for import licenses because of minor clerical errors.

The reform of the GATT framework has two basic purposes: to bring some provisions of the GATT more into line with the needs of developing countries and to strengthen the GATT mechanism for settling disputes. With regard to the first purpose, the reforms allow developed countries to grant special concessions to less developed countries without making similar concessions to other developed countries. In return, the less developed countries agree gradually to accept the trading responsibilities of developed countries as their economic development proceeds. With regard to the second purpose, the reforms detail and expand GATT procedures for consultation and dispute settlement.

Agreement was also reached on nontariff barriers affecting some particular commodities.

Quotas on imports of U.S. agricultural products were liberalized by Japan, Canada, the European Community, and some less developed countries. The United States has temporarily eased restrictions on imports of cheese. In the future, however, new U.S. policies on cheese imports will prove more restrictive than current policies. On net, these changes in agricultural trade policies should allow increases in U.S. agricultural exports.

An agreement on trade in civil aircraft eliminates all tariffs on civil aircraft, aircraft engines, and parts, and binds all signatory governments to purchase civil aircraft purely on the basis of price, performance, and delivery times. Because the United States is the world's leading producer of aircraft, it is expected to increase its foreign sales as a result of this agreement.

#### WHAT THE TOKYO ROUND DID NOT ACCOMPLISH

The successful conclusion of the Tokyo Round negotiations represents a major accomplishment--particularly in light of the recent instability of the international economic system. The

negotiations did not, however, accomplish all that some observers had hoped. Among the disappointments were the failure to agree on a safeguards code detailing steps to be taken in the face of sudden increases in imports; a failure to deal with quantitative trade restrictions; the refusal of all but one less developed country to endorse the entire package of agreements; the inability to strengthen appreciably the GATT mechanisms for enforcement and dispute settlement; and the absence of discussion of large-scale, long-term bilateral barter arrangements between countries. These issues stand as the major problems to be faced in future bilateral or multilateral trade talks.

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## CHAPTER I. INTRODUCTION

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On April 12, 1979, representatives of the United States and 40 other countries signed a proces-verbal in Geneva, marking the formal conclusion of the Tokyo Round of Multilateral Trade Negotiations. 1/ The proces-verbal, a diplomatic vehicle used to note formally the results of negotiations, states that negotiations have been completed and that the signatories will submit the agreements for approval in accordance with their respective domestic procedures. Aimed at reducing both tariff and nontariff barriers to international trade, the Tokyo Round negotiations have succeeded in bringing about agreement on a significant multilateral reduction in tariffs, on a number of "codes" of conduct that will govern the use of nontariff trade measures, and on some reform of the structure of the General Agreement on Tariffs and Trade (GATT), which has provided the basic framework for international trade throughout the postwar period.

Although 99 countries participated in the Tokyo Round talks, only 41 signed the final proces-verbal, and of these only 23 subscribed to the full set of agreements. 2/ The remaining 18 countries entered into various partial and bilateral agreements dealing with particular tariff and nontariff matters. Included among the 23 countries subscribing to the full set of agreements were all of the major industrialized trading countries. Among the less developed countries, only Argentina accepted all of the negotiated agreements. The other less developed countries, citing what they considered to be insufficient concessions on

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1/ For more on the history and goals of the Tokyo Round, see Congressional Budget Office, U.S. Trade Policy and the Tokyo Round of Multilateral Trade Negotiations, Background Paper (March 1979).

2/ The countries agreeing to the full pact were the United States, Japan, Canada, the United Kingdom, West Germany, France, Italy, the Netherlands, Belgium, Denmark, Luxembourg, Ireland, Switzerland, Sweden, Norway, Finland, Austria, Hungary, Czechoslovakia, Bulgaria, Australia, New Zealand, and Argentina.

the part of the developed world, signed only some of the agreements or refused to sign at all.

Among the several elements of the Tokyo Round agreements, most attention has focused on the provisions affecting nontariff barriers to trade. These nontariff barriers can take a wide variety of forms, ranging from direct quantitative restrictions to various procedural and administrative practices that have the result of hindering the international flow of trade. Generally, the term "nontariff barriers to trade" is used to denote any government policy except tariffs that limits international trade.

Designed to clarify, standardize, and "harmonize" the nontariff policies of the signatory nations, the codes on nontariff measures are a new feature of international trade negotiations. Previous rounds of trade talks have succeeded in reducing tariffs but have done little to restrict the use of nontariff barriers to trade. As a result, the gains to be achieved through further tariff reductions are less now than they have been in the past. On the other hand, considerable gains are yet to be made by regulating the use of nontariff measures. Indeed, with tariffs at very low rates (by historical standards), many countries have turned increasingly to nontariff means of protecting their domestic industries from foreign competition. The new trade codes are widely seen as addressing specifically those practices that now constitute the most important obstacles to international trade.

On June 19, 1979, President Carter formally submitted the agreements reached in Geneva and the legislation necessary to implement these agreements to the Congress for approval. Under the terms of the Trade Act of 1974 (which gives the U.S. President authority to negotiate changes in international trade policy), the Congress will have a maximum of 90 legislative days to approve or disapprove the agreements. The Trade Act further specifies that neither the agreements nor the implementing legislation may be amended during Congressional consideration; they must be adopted or rejected in their entirety, as submitted. To eliminate the need for any changes after formal submission, the Finance Committee of the Senate and the Ways and Means Committee of the House have for the past several months conducted extensive reviews both of the draft agreements and of the implementing legislation.

The Trade Act of 1974 gives the President power to negotiate reductions in U.S. tariffs (within limits) without subsequent approval by the Congress. Only the nontariff parts of the Tokyo Round agreements must be approved by the Congress, and these

agreements will enter into force for the United States when and if they receive Congressional approval.

#### THE EFFECTS OF THE TOKYO ROUND AGREEMENTS

While few observers doubt that the Tokyo Round agreements will bring about significant changes in the rules that govern international trade, it is impossible to estimate fully the ultimate effects the Geneva agreements will have on international trade or on the U.S. economy. The direct, near-term effects of tariff reductions can be calculated fairly readily. But probably outweighing these direct effects are the longer-term changes brought about by freer trade: international specialization, larger-scale and thus more efficient production, and more rapid innovation spurred by increased competition. The estimation of such long-term effects is simply beyond the capabilities of any economic analysis.

The effects of reductions in nontariff barriers to trade are even more difficult to predict. All of the problems encountered in estimating the long-term effects of tariff reductions are present in the case of nontariff barriers. In addition, because the effectiveness of any attempt to reduce nontariff barriers will depend critically on the specific policies adopted by particular governments and on the vigor with which the new codes of conduct are enforced, it is possible in only a very few cases to estimate even their short-term effects.

By and large, the Tokyo Round agreements will result in important benefits for the U.S. economy. These benefits, however, will not be uniformly distributed among all industries or individuals in the United States. Some U.S. industries and the workers in these industries stand to gain from increased opportunities for exports. Other industries and their workers will face increased competition from imports. Some may suffer losses in employment opportunities.

The U.S. negotiators in Geneva have taken great pains to protect U.S. industries that are most susceptible to injury from increased foreign competition. The evidence presented in the following chapters indicates that to a very great extent they have succeeded. The employment effects of the Geneva agreements are very small, both for the country as a whole and for particular industries. In most cases, the reductions in employment opportunities that are occasioned by reduced barriers to trade can be

absorbed by retirement, by voluntary transfers of workers to other industries, or simply by reducing slightly the number of workers hired to meet growing demand. It seems unlikely that more than a very few layoffs will be caused by the Tokyo Round agreements.

It is impossible, however, to eliminate all the costs associated with freer trade. The gains that arise from freer trade come about primarily as a result of changes in national economic structures. Nations produce more of those goods that they can produce relatively efficiently and less of those that can be produced abroad more cheaply. The result is a wider variety of lower-cost goods in all nations. But these gains require reductions in certain economic activities in each country, and with these reductions come reductions in job opportunities in particular industries. There is no way to receive the benefits of freer trade without paying some of these costs. It will be one of the important purposes of this paper to point out what changes in the U.S. economic structure will be required if the overall net benefit of the Tokyo Round agreements for the United States is to be realized.

Where possible, this paper will cite quantitative estimates of the effects of the Tokyo Round agreements and note the sometimes considerable qualifications that must accompany such estimates. Where quantitative estimates are impossible, it will provide a verbal treatment of the expected effects. Chapter II describes the tariff reductions agreed to and discusses their likely effects. Chapter III provides a similar, but far less quantitative, treatment of the codes on nontariff barriers, changes in the GATT framework, and agreements affecting particular industries. Chapter IV provides some general conclusions drawing upon the results of the preceding chapters.

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## CHAPTER II. TARIFF REDUCTIONS

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The major industrialized countries have agreed, as part of the Tokyo Round accords, to a significant reduction in tariffs. With a few important exceptions, these tariff reductions will be phased in over an eight-year period beginning January 1, 1980. 1/ With a few exceptions, the less developed countries will not reduce tariffs as a result of the Tokyo Round negotiations.

### THE SIZE OF THE TARIFF REDUCTIONS

The most often cited measures of the size of the agreed-upon tariff reductions are so-called "depth of cut" figures, measuring the percentage decrease in tariffs that will result from the Tokyo Round agreements. These figures can be useful in conveying a general impression of the quantitative significance of the Tokyo Round tariff reductions, but they do not reflect accurately the relative size of the concessions made by various countries. In some cases, demand for imported goods is very sensitive to changes in prices, and even small reductions in tariff rates can bring about large increases in imports. Conversely, the demand for many internationally traded commodities is nearly insensitive to variations in price; even large tariff reductions for these commodities will have little effect on trade flows. Thus, one should not place too much emphasis on the relative depths of tariff cuts made by various countries; these do not serve as accurate measures of the relative concessions made by each.

The United States has agreed to reduce its tariffs on all dutiable goods by an average of 29.6 percent. 2/ The European

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1/ The most important exceptions for the United States involve textiles, apparel, and leather products. For these commodities, U.S. tariff reductions will begin in July 1982 and be completed within eight years.

2/ All averages in this paper, unless otherwise noted, are trade-weighted averages computed on the basis of merchandise imports for 1976, the latest year for which complete trade data are available.

Community (EC) will reduce its tariffs by an average of 29.3 percent. <sup>3/</sup> For Canada and Japan, the situation is somewhat more complex. Since the end of the Kennedy Round of trade negotiations in 1967, both of these countries have made nonbinding unilateral reductions in the tariffs they apply on certain products. As a result, these two countries (and particularly Japan) now apply tariffs that are lower than the "bound rates," which, under the terms of the General Agreement on Tariffs and Trade (GATT), mark the upward limit on tariffs that each country may apply. Canada and Japan have agreed to reductions in their bound rates averaging 39 percent and 23 percent, respectively, but since the applied rates of these countries are in many cases well below the relevant bound rates, the actual reductions in tariffs will be only 28.0 percent for Canada and 10.7 percent for Japan.

Throughout the Tokyo Round negotiations on tariff cuts, primary emphasis was placed on reductions in industrial tariffs. In most cases--the EC is an exception--tariffs on agricultural products were reduced less than were tariffs on industrial products. Table 1 shows the average tariff reductions for all dutiable imports for the United States, Canada, Japan, and the EC. (Dutiable imports are all imports on which duties are imposed.) It also shows average reductions for agricultural, manufactured, and other imports for each of these countries.

The figures in Table 1 are the depths of cut agreed to by each country in all its tariffs. As such, they provide a rough measure of the magnitude of the tariff concessions that each country made to the rest of the world. They are not, however, an accurate reflection of the concessions that each country made to the United States. Neither does the average depth of cut for the United States accurately reflect U.S. concessions to specific countries. Table 2 shows the average depths of cut that the major industrial countries made in the tariffs they apply to their imports from the United States, and the average depths of cut made by the United States in its tariffs on products from those countries.

The bilateral tariff reductions for all dutiable imports shown in Table 2 are little different from the overall tariff

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<sup>3/</sup> The countries of the European Community are West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Ireland, and the United Kingdom.

TABLE 1. AVERAGE DEPTHS OF CUT IN TARIFFS ON DUTIABLE IMPORTS:  
IN PERCENT

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports <u>a/</u>
United States	29.6	17.2	30.9	51.2
EC	29.3	30.0	29.0	31.4
Japan <u>b/</u>	10.7	3.6	11.8	5.9
Canada <u>b/</u>	28.0	20.0	28.1	48.8

SOURCE: Office of the Special Representative for Trade Negotiations.

a/ Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

b/ For Canada and Japan, the figures shown refer to reductions in applied tariff rates. Reductions in bound rates are higher.

reductions shown in Table 1. The United States and the EC made roughly equal cuts on tariffs affecting each other's products. U.S. reductions on Japanese and Canadian products were substantially larger than the reductions these countries agreed to on American products.

Table 2 highlights the Tokyo Round emphasis on industrial tariffs. If only tariffs on nonagricultural products are considered, the Japanese and Canadian reductions on U.S. products are much higher than if all goods are considered. In fact, Japan made larger cuts on U.S. nonagricultural products than the United States made on Japanese nonagricultural products.

The tariff cuts negotiated in Geneva, although large in percentage terms, will have only a small effect on the overall price level of dutiable imports. This is because tariff rates are, on average, fairly low already. The average U.S. tariff rate for all dutiable imports, for example, is only 8.1 percent. After all of the agreed-upon tariff reductions have been implemented,

TABLE 2. AVERAGE DEPTHS OF CUT IN FOREIGN TARIFFS ON U.S. PRODUCTS AND IN U.S. TARIFFS ON PRODUCTS OF SELECTED INDUSTRIAL COUNTRIES: IN PERCENT

Country	All Dutiable Imports		Nonagricultural Imports	
	U.S. Tariffs on Foreign Products	Foreign Tariffs on U.S. Products	U.S. Tariffs on Foreign Products	Foreign Tariffs on U.S. Products
EC	34.3	35.8	35.2	33.3
Japan <u>a/</u>	32.4	14.1	32.4	46.7
Canada <u>a/</u>	44.4	28.7	44.2	37.0

SOURCE: Office of the Special Representative for Trade Negotiations.

a/ For Canada and Japan, the figures shown refer to reductions in applied tariff rates. Reductions in bound rates are higher.

the average U.S. tariff rate will be 5.6 percent. Thus, the average price of U.S. dutiable imports will be lower by a maximum of about 2.4 percent as a result of the Tokyo Round tariff reductions. 4/ Table 3 shows average tariff rates prevailing before the Tokyo Round and those that will apply after all of the reductions have been implemented.

As Table 3 shows, the United States currently has tariff rates somewhat lower than the European Community, Japan, or Canada. Because of this, U.S. tariff rates will still be lower on

4/ The minor inconsistency in these figures is due to rounding. With lower tariff rates, foreign producers could choose to raise prices on exported goods, capturing for themselves part or all of the revenue given up by governments in reducing tariffs. The figure of 2.4 percent is a maximum in the sense that it represents the reduction in import prices that would result if the full tariff reductions were passed on to consumers.

TABLE 3. AVERAGE TARIFF RATES ON DUTIABLE IMPORTS BEFORE AND AFTER TARIFF REDUCTIONS: IN PERCENT

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports <u>a/</u>
United States				
Before	8.1	8.7	8.1	4.1
After	<u>5.6</u>	<u>7.2</u>	<u>5.6</u>	<u>2.0</u>
Difference	<u>2.4</u>	<u>1.5</u>	<u>2.5</u>	<u>2.1</u>
EC				
Before	9.9	7.0	10.0	10.2
After	<u>7.0</u>	<u>4.9</u>	<u>7.1</u>	<u>7.0</u>
Difference	<u>2.9</u>	<u>2.1</u>	<u>2.9</u>	<u>3.2</u>
Japan <u>b/</u>				
Before	14.0	14.0	15.3	1.7
After	<u>12.5</u>	<u>13.5</u>	<u>13.4</u>	<u>1.6</u>
Difference	<u>1.5</u>	<u>0.5</u>	<u>1.8</u>	<u>0.1</u>
Canada <u>b/</u>				
Before	12.5	6.5	12.8	4.3
After	<u>9.0</u>	<u>5.2</u>	<u>9.1</u>	<u>2.2</u>
Difference	<u>3.5</u>	<u>1.3</u>	<u>3.6</u>	<u>2.1</u>

SOURCE: Office of the Special Representative for Trade Negotiations.

NOTE: Detail may not add to totals because of rounding.

a/ Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

b/ For Canada and Japan, the figures shown refer to reductions in applied tariff rates. Reductions in bound rates are higher.

average than rates in other countries even though the absolute reductions in EC and Canadian tariffs will be larger than the reductions in U.S. rates.

The effects of these tariff reductions on total import prices will be even less than is suggested by the figures in Table 3. Dutiable imports account for only a part of total merchandise imports, and tariff reductions will, of course, have no direct effect on the prices of nondutiable items. In the case of the United States, for example, dutiable imports represented only 42 percent of total merchandise imports in 1976. As a result, the maximum reduction in total U.S. import prices that could be brought about by the Tokyo Round is only about 1 percent. Table 4 presents comparable figures for the principal industrialized economies.

TABLE 4. SHARE OF DUTIABLE IMPORTS IN TOTAL IMPORTS, AND REDUCTIONS IN DUTIABLE AND TOTAL MERCHANDISE IMPORT PRICES: IN PERCENT

Country	Share of Dutiable Imports in Total Merchandise Imports <u>a/</u>	Average Reduction in Tariffs on Dutiable Imports	Maximum Reduction in Total Merchandise Import Prices
United States	43	2.4	1.0
EC	41	2.9	1.2
Japan	37	1.5	0.6
Canada	54	3.5	1.9

SOURCES: International Monetary Fund, Direction of Trade; and Office of the Special Representative for Trade Negotiations.

a/ In 1976.

## THE SECTORAL DISTRIBUTION OF THE TARIFF REDUCTIONS

At the outset of the Tokyo Round, the United States proposed that all tariffs be reduced uniformly by 60 percent. (This was the maximum reduction allowed for U.S. tariffs by the Trade Act of 1974.) The European Community rejected this proposal, urging instead that tariffs should be both reduced and "harmonized"--that is, that higher tariffs should be reduced by a higher percentage than lower ones. Eventually, it was agreed that the so-called "Swiss formula" should serve as the basis for tariff cutting. 5/ Ideally, all tariffs would be cut by the amounts specified by the formula, with exceptions being made for particularly sensitive commodities or for commodities for which the application of the formula would result in a larger reduction than the negotiators were empowered to agree to. Strict adherence to the Swiss formula would have led to average tariff reductions of 42 percent for the United States, 43 percent for the EC, 68 percent (in applied rates) for Japan, and 39 percent (in applied rates) for Canada--much larger cuts than were in fact made.

The decision by the participants in the Tokyo Round to make smaller average tariff cuts than were called for by the formula can be explained partly by the fact that the highest tariffs were reduced by much less than other tariffs. Table 5 shows the average depths of cut in tariffs of various sizes made by the major participants. For tariffs less than 20 percent, the United States and Canada show some evidence of cutting higher tariffs more than lower tariffs. Japanese and EC cuts are about even across this interval. For tariffs greater than 20 percent, however, the cuts were much smaller. (At the level of aggregation used to compute Table 5, the EC had no tariffs above 20 percent.) In many cases, high tariff rates mark commodities of particular political or economic sensitivity to import competition. That tariffs on such commodities were not reduced greatly is perhaps not surprising.

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5/ Specifically, the Swiss formula called for a tariff rate  $x$  to be reduced to a lower rate,  $z$ , according to the formula:  $z = 14x + (x + 14)$ . This formula would result in larger percentage cuts for higher rates. There was no historical or intellectual reason for the choice of this particular formula. It was chosen principally because it was simple and implied an acceptable average depth of cut.

TABLE 5. AVERAGE DEPTHS OF CUT BY CURRENT TARIFF RATES: IN PERCENT

Country	Current Tariff Rate in Percent					
	0	5	10	15	20	Greater
	to	to	to	to	to	than
	5	10	15	20	25	25
United States	32	32	36	38	18	20
EC	30	32	28	29	--	--
Japan	2	21	24	21	7	2
Canada	27	25	33	34	9	10

SOURCE: Office of the Special Representative for Trade Negotiations.

NOTE: These average depths of cut were computed on the basis of prevailing tariff rates and negotiated tariff cuts for 169 categories of goods identified at the three-digit Standard Industrial Classification (SIC) level. Different aggregations of commodities would result in slightly different figures. For Japan and Canada, depths of cut reflect cuts in applied tariff rates.

Some indication of which industries were considered particularly sensitive to increased import competition--and therefore deserving of special consideration--by each of the participants can be obtained by comparing the tariff reductions that actually resulted from the Tokyo Round negotiations with the reductions that would have resulted from a strict application of the Swiss formula. Table 6 provides such a comparison for two-digit Standard Industrial Classification (SIC) categories of goods. Entries in this table indicate the difference between tariff rates actually agreed on and the rates called for by the Swiss formula. A negative entry indicates a tariff cut smaller than required by the formula. The most striking aspect of Table 6 is the number of negative entries; at the level of aggregation represented in the table, very few tariff cuts are as large as the formula calls for. Indeed, for the EC, only one category shows a reduction as large as the formula would have demanded (although greater-than-formula reductions

TABLE 6. DIFFERENCES BETWEEN SWISS FORMULA TARIFF REDUCTIONS AND FINAL TOKYO ROUND REDUCTIONS: IN PERCENT

SIC Category		United States	EC	Japan <u>a/</u>	Canada <u>a/</u>
01	Agricultural Products (Crops)	-4.8	-0.5	-14.3	-1.0
02	Agricultural Products (Livestock)	1.3	-0.4	-5.0	-0.3
08	Forest Products	1.2	-1.3	-3.1	0.1
09	Fishing, Hunting, and Trapping	0.1	0.8	-1.8	-0.7
10	Basic Metals (Unprocessed)	0.2	-0.1	-0.1	-0.1
12	Bituminous Coal and Lignite	—	-0.2	-1.9	—
14	Nonmetallic Minerals, Except Fuels	1.4	-0.9	-2.4	-0.5
20	Food and Kindred Products	-0.7	-0.9	-13.6	-0.9
21	Tobacco Products	-6.1	—	-340.8	-8.2
22	Textile Mill Products	-3.6	-2.5	-3.7	-3.6
23	Apparel and Other Textile Products	-10.3	-4.7	-6.4	-8.9
24	Lumber and Wood Products	0.2	-1.4	-2.3	-1.5
25	Furniture and Fixtures	0.8	-0.4	-0.4	-3.1
26	Paper and Allied Products	1.6	-1.8	-1.7	-0.4
27	Printing and Publishing	0.6	-0.7	0.3	3.7
28	Chemicals and Allied Products	-0.9	-1.4	-1.4	-2.6
29	Petroleum and Coal Products	1.4	-1.3	-1.6	-1.6
30	Rubber and Miscellaneous Plastic Products	-0.6	-2.3	-2.0	-3.3
31	Leather and Leather Products	-4.3	-0.9	-4.3	-4.3
32	Stone, Clay, and Glass Products	-2.1	-1.7	-1.0	-0.6
33	Primary Metals	-0.2	-0.6	-0.5	-3.0
34	Fabricated Metal Products	-0.1	-0.7	-0.2	-0.5
35	Machinery, Except Electric	0.2	-0.4	0.4	-0.3
36	Electric Machinery and Electronic Equipment	0.1	-2.4	0.3	1.7
37	Transportation Equipment	0.3	-1.5	2.1	-0.5
38	Instruments and Related Products	0.0	-0.5	0.0	0.5
39	Miscellaneous Manufactured Products	0.7	-0.4	-2.7	-0.7
99	Miscellaneous Commodities	2.0	-0.7	-1.8	0.4
	Not Otherwise Classified	-1.9	-0.9	-1.6	-0.5

SOURCE: Office of the Special Representative for Trade Negotiations.

NOTE: Negative entries denote less-than-formula reductions.

a/ For Canada and Japan, these figures represent formula reductions and actual reductions in applied rates.

were agreed to for some specific items within the larger categories shown in the table).

The U.S. Office of the Special Representative for Trade Negotiations (STR) has identified particular industries in the United States that were afforded special treatment in the tariff negotiations. <sup>6/</sup> These include textiles, apparel, leather products, rubber products (especially footwear), and some stone, clay, and glass products. For all of these categories, U.S. tariff reductions were significantly smaller than formula reductions. In a few other categories--notably crops, tobacco products, and chemicals--U.S. reductions were also smaller than formula cuts. This may represent retaliation for less-than-formula cuts in these categories by the other participants. In many instances, if one of the participants refused to make formula reductions, all refused. Some notable exceptions to this are the relatively large U.S. concessions on paper and paper products and the relatively small EC concessions on electrical machinery and transport equipment. The general message of Table 5 remains, however, that in most cases tariff reductions were not as great as were called for by the agreed-upon formula, primarily because one country or another found it impossible to make the reductions mandated by the formula and other countries followed suit.

#### THE EMPLOYMENT EFFECTS OF THE TARIFF REDUCTIONS

Throughout the Tokyo Round tariff negotiations, U.S. negotiators sought to avoid tariff reductions that could damage certain particularly vulnerable U.S. industries. To a large extent, they have been successful in this effort. Nonetheless, increased import competition resulting from tariff reductions will force some U.S. industries to reduce production. At the same time, however, many other U.S. industries will be able to expand production as foreign markets are opened to their products.

With these changes in production will come changes in employment. In some industries job opportunities will be fewer than they would have been in the absence of tariff reductions, and in

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<sup>6/</sup> U.S. Department of Labor, Trade and Employment Effects of Tariff Reductions Agreed to in the MTN (June 22, 1979; processed).

other industries job opportunities will be more plentiful. The changes in employment that are likely to result from the Tokyo Round tariff cuts, however, are very small. This is true both for the U.S. economy as a whole and for nearly all particular industries. A number of studies--some completed before the final Tokyo Round tariff negotiations and some, like those cited below, based on the final results of these negotiations--have examined the employment effects of tariff reductions. The principal findings of all of these studies and indeed the main finding of this report are the same: Tariff reductions of the sort negotiated in Geneva will have only very small effects on employment in the United States.

Two recent studies provide detailed information on the employment effects of the Tokyo Round tariff reductions for particular U.S. industries. <sup>7/</sup> Although the studies differ in method and level of detail, both come to roughly similar conclusions about which industries in the United States will gain

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<sup>7/</sup> The two studies are: U.S. Department of Labor, Bureau of International Labor Affairs, Trade and Employment Effects of Tariff Reductions Agreed to in the MTN (June 22, 1979; processed), and Alan V. Deardorff and Robert M. Stern, An Economic Analysis of the Effects of the Tokyo Round of Multilateral Trade Negotiations on the United States and the Other Major Industrialized Countries, report prepared for the Subcommittee on International Trade, Senate Committee on Finance, 96:1 (June 1979). The method employed in the Labor Department study is that developed by Professor Robert E. Baldwin of the University of Wisconsin. The key assumptions on which this approach is based are that imports are imperfect substitutes for each other, but that increases in imports replace purchases of domestic substitutes dollar for dollar. All supply curves are assumed to be infinitely elastic. The Stern and Deardorff model is a general equilibrium model including both supply and demand curves of finite elasticity for each industrial nation (and a residual "rest of the world") and for each commodity. Solution of the model requires all markets to clear except for the labor market, thus generating employment changes as a result of tariff reductions. Capital is assumed to be immobile. Both models allow for intersectoral interactions through an input-output relationship, but neither includes the macroeconomic effects of changes in aggregate income.

and which will lose as a result of tariff reductions. Further, these results are very similar to what other studies--completed before the conclusion of the Tokyo Round--have suggested would be the results of significant multilateral tariff reductions. 8/

(Both the Labor Department study and Deardorff and Stern's study provide estimates of the effects of tariff reductions assuming both fixed and flexible exchange rates. While it is certainly true that national monetary authorities intervene actively in international currency markets, there is no evidence that major industrial countries have attempted in recent years to maintain their currencies at specified values for extended periods of time. Rather, all evidence indicates that recent official currency market intervention has been intended only to smooth out erratic changes in exchange rates. Thus, it would seem that the flexible exchange rate case is the more accurate representation of the present international monetary environment. Accordingly, unless otherwise noted, all estimates of the effects of the Tokyo Round agreements in this paper are based on an assumption of flexible exchange rates.)

By far the largest gains (as measured either by new jobs created or by increased exports) will accrue to the U.S. agricultural sector and to those industries that directly supply the needs of agriculture. Also gaining will be those industries that employ relatively sophisticated, modern technologies and highly skilled workers. Among these industries, those producing aircraft and aircraft parts, electrical machinery and components, and chemicals will reap the largest benefits. The U.S. industries in which output and employment may fall are generally labor intensive and employ older, well-known technologies. Some prominent examples of U.S. industries likely to be adversely affected by tariff reductions are the apparel, plastic products, and pottery, china, and earthenware industries.

Although the actual pattern of gainers and losers is generally what one might have expected to result from across-the-board tariff cuts, there are some interesting exceptions. For the most part, these are attributable to the special consideration given

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8/ For a discussion of some of these results, see Congressional Budget Office, U.S. Trade Policy and the Tokyo Round of Multilateral Trade Negotiations, Background Paper (March 1979), particularly pp. 21-32.

vulnerable industries. The U.S. textile and apparel industry was seen as extremely vulnerable to tariff reductions; some estimates of potential job losses in that industry went as high as 2 percent of the labor force. <sup>9/</sup> Because tariff reductions for these commodities were lower than for many other commodities, and because certain U.S. quantitative restrictions affecting textiles and apparel are being tightened, job losses in these industries have been minimized. The Labor Department estimates that these losses will amount to between three-tenths and one-half of one percent of present employment in these industries. Deardorff and Stern's estimates are similar. U.S. tariff reductions on footwear were also very small, and as a result this industry--generally considered highly vulnerable to increased import competition--will suffer job losses of only between two-tenths and four-tenths of one percent of the total labor force, according to Labor Department estimates. Deardorff and Stern estimate a small gain in footwear employment. Similar results can be cited for each of the commodities identified by STR as deserving of special treatment. <sup>10/</sup>

One would not expect, however, that the negotiators could protect particular U.S. industries from increased import competition without making some concessions to foreign interests. In some cases, these concessions took the form of allowing other governments to maintain higher tariffs on items of particular sensitivity in their own countries. The figures in Table 6 indicate that for many items foreign tariff reductions were not as large as were called for by formula, and these higher foreign tariffs reduce export opportunities for U.S. firms. There is, of course, no way of knowing how much larger the foreign concessions might have been if the United States had not insisted on special protection for one industry or another. The presumption must remain, however, that, at least to a degree, special treatment for particularly sensitive U.S.

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<sup>9/</sup> See William R. Cline, Naboro Kawanabe, T.O.M. Kronsjo, and Thomas Williams, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (Washington, D.C.: The Brookings Institution, 1978), p. 136. The study emphasized, however, that quotas for textiles would probably make tariff reductions ineffective.

<sup>10/</sup> For a detailed list of the employment effects of this special treatment, see the Labor Department study, Table 6.

industries was achieved at the cost of potential export sales by other U.S. industries.

It is important to keep the magnitudes of the gains and losses described here in perspective: in most cases, they are very small. The Labor Department study provides estimates of employment effects for 291 industrial products. Of these, only 7 are found likely to experience job gains amounting to 1 percent or more of the current labor force. <sup>11/</sup> For only 21 products will job losses over the entire eight-year period of implementing the tariff reductions amount to more than 1 percent of the current labor force. <sup>12/</sup> This does not mean that specific products in other categories will not show substantial reductions in employment or that no plants or businesses will be forced to close as a result of tariff reductions. What the figures do suggest, however, is that, at the level of detail afforded by the study, tariff reductions will cause noticeable employment changes in only a very few industries.

In some industries recent expansion of the labor force has been sufficiently rapid that tariff-related changes in employment are not likely to cause any absolute decline in the industry work force; these industries will simply expand their work forces more slowly. Much more important, however, is the fact that in all of the industries represented in the Labor Department study, the normal rate of labor turnover far exceeds the rate at which jobs will be lost because of tariff reductions. The necessary labor force reductions can be accomplished simply by not replacing all

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<sup>11/</sup> These seven products are semiconductors (3.2 percent), computing machines (3.0), aircraft equipment (2.5), electronic components (1.7), x-ray apparatus (1.6), mechanical measuring devices (1.6), and aircraft engines and parts (1.0).

<sup>12/</sup> These 21 products are pottery food utensils (22.7 percent), other pottery products (12.6), artificial flowers (6.1), lace goods (5.8), jewelry (4.8), watches and clocks (4.0), motorcycles (3.2), vegetable oil mills (3.1), scouring combing plants (2.9), cutlery (2.1), miscellaneous manufactures (1.9), games and toys (1.7), optical instruments (1.7), other textile goods (1.5), sporting goods (1.5), buttons, pins, and fasteners (1.4), radio and TV sets (1.4), other leather products (1.2), ceramic tile (1.2), veneer and plywood (1.1), and tire cord and fabric (1.1).

workers who leave voluntarily; it is unlikely that tariff reductions will cause any industrywide layoffs.

Whatever the ultimate effects of tariff changes on employment in particular industries, these effects will not be felt at once. Because tariff reductions will be phased in over a period of eight to ten years, employment increases and decreases will proceed only slowly. Unfortunately, the industries that will suffer because of tariff reductions are in many cases already characterized by very slow growth or even decline in their work forces. <sup>13/</sup> Indeed, the same economic factors that are forcing relative decline in these industries--low productivity growth, slow technological progress, relatively high labor costs--also make them vulnerable to import competition. In a sense, trade liberalization may be seen as simply accelerating the inevitable decline in such industries.

The total employment effects of the Tokyo Round tariff changes--that is, the net number of jobs gained or lost in the U.S. economy--will be very small. The Department of Labor estimates that the net effect will be a loss of only 300 jobs in the entire economy, with the net losses in the manufacturing, mining, and service sectors very slightly exceeding net gains in agriculture. Estimates by Deardorff and Stern are similar: a net gain of 2,300 jobs, reflecting a net gain in agriculture and net losses in other sectors. (Table 7 summarizes these estimates.) Compared to total U.S. employment of 87 million in 1976 (the year for which the estimates were made), these overall employment effects are very small.

Deardorff and Stern also estimate the effects of the Tokyo Round tariff reductions on employment in other industrialized countries. While U.S. employment gains will amount to about 0.003 percent of 1976 employment, in Japan the gains will be slightly smaller (0.002 percent). They will be higher in Canada (0.055 percent) and in the EC (0.121 percent).

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<sup>13/</sup> Some examples of industries that are likely to suffer employment losses as a result of the Tokyo Round tariff reductions, and that have had declining work forces in recent years are pottery food utensils (recent annual decline in employment, 1.65 percent per year), artificial flowers (2.85), lace goods (5.71), vegetable oils (2.23), and ceramic wall and floor tile (3.10).

TABLE 7. ESTIMATES OF NET EMPLOYMENT EFFECTS IN THE UNITED STATES  
OF TOKYO ROUND TARIFF REDUCTIONS

Source of Estimate	Total	Agriculture	All Other Sectors
Department of Labor	-300	+3,300	-3,600
Deardorff and Stern	+2,300	+13,000	-10,700

#### THE REGIONAL EFFECTS OF THE TARIFF REDUCTIONS

Just as the effects of the Tokyo Round tariff reductions will differ from one sector of the U.S. economy to another, they will also differ from one region of the United States to another. Some regions may be expected to gain employment as a result of these tariff reductions; in other regions job opportunities may be fewer than they would have been without the tariff reductions.

While it is impossible to calculate exactly what the regional effects of tariff reductions will be, some rough estimates are possible. These estimates and all other evidence strongly suggest that, as was the case with particular industries, the regional employment effects of the Tokyo Round tariff reductions will be very small. Indeed, the estimates of regional gains and losses in employment are all smaller than the errors generally associated with such estimates. Thus the proper conclusion to draw from such figures is that, on a regional basis, the Tokyo Round tariff reductions will have no significant impact on employment.

Table 8 gives estimates for the employment changes resulting from the Tokyo Round tariff reductions in the nine U.S. census regions. These estimates are based on the detailed estimates compiled by the Department of Labor of increases or decreases of job opportunities in individual sectors. These gains and losses are allocated among regions on a strictly proportional basis: if half of the employment in a particular industry is located in a given region, then half of the gains or losses in employment in the industry in question are associated with that region. No account is taken of the fact that plants in some regions are more

TABLE 8. REGIONAL EMPLOYMENT EFFECTS OF THE TOKYO ROUND TARIFF REDUCTIONS: IN NUMBER OF JOB OPPORTUNITIES GAINED OR LOST

Region	States	Change in Job Opportunities
Pacific	Washington, Oregon, California, Hawaii, Alaska	+500
Mountain	Montana, Idaho, Wyoming, Nevada, Utah, Colorado Arizona, New Mexico	+200
West North Central	North Dakota, South Dakota, Minnesota, Nebraska, Iowa, Kansas, Missouri	+1,700
East North Central	Wisconsin, Michigan, Illinois, Indiana, Ohio	+6,100
West South Central	Texas, Oklahoma, Arkansas, Louisiana	+1,300
East South Centr. .	Kentucky, Tennessee, Mississippi, Alabama	-900
South Atlantic	West Virginia, Maryland, Delaware, Virginia, North Carolina, South Carolina, Georgia, Florida, District of Columbia	-3,400
Middle Atlantic	New York, Pennsylvania, New Jersey	-5,300
New England	Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island	-500

modern or efficient--and thus less likely to reduce production--than plants in other regions. Also, data on the regional distribution of employment by industry are from the 1970 census. This distribution has undoubtedly changed somewhat since then, but until the 1980 census is completed, it will be impossible to update this information.

The increased job opportunities in the Midwest and West are reflective of the general gains that tariff reductions are expected to bring to agriculture and to high-technology industries. The estimates of decreases in job opportunities in the East and South are the result of expected increased import competition in older, traditional manufacturing industries.

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### CHAPTER III. AGREEMENTS AFFECTING NONTARIFF MEASURES

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The agreements reached in Geneva affecting nontariff measures are of three major types: codes for the conduct of international trade, reform of the GATT framework, and reductions of nontariff barriers to trade in specific products. While agreements of the last two types are likely to be quite important for the less developed countries and for agricultural trade, respectively, the codes governing the conduct of international trade have the potential for reshaping the way trade is carried on and for controlling the use of a wide variety of nontariff measures in the future. For this reason, these codes are widely viewed as the most important products of the Tokyo Round.

Agreement was reached in Geneva on six major codes. These codes address trade problems inherent in government procurement, the use of subsidies and the imposition of countervailing duties, "dumping" of goods in foreign markets, customs valuation, the setting of standards for imports, and the issuance of import licenses. Of these, only the government procurement code will have predictable near-term effects on the U.S. economy. The direct effects of the other codes are likely to be small. These codes do, however, address a series of difficult problems for the international trading system, and most observers agree that they constitute an important first step toward the control of nontariff barriers to trade.

The codes address a diverse set of concerns, but they have in common that each of them establishes mechanisms for the monitoring of its own operation and for settling disputes concerning its proper application. These mechanisms vary somewhat from one code to the next, but in all cases they involve the establishment of a special committee of signatories to the code to consider contested issues. These dispute settlement procedures are generally seen as an improvement over current GATT procedures. How much of an improvement the new procedures will be, however, and whether they will in fact allow effective enforcement of the new codes remain to be seen. Indeed, much of the uncertainty

about the effects of the codes arises from questions about their detailed implementation and enforcement. 1/

In addition to the six codes that were settled on in Geneva, negotiators considered, but could not agree upon, two other codes. One of these, the so-called "safeguards" code, was to have detailed what actions are available to countries faced with sudden increases in imports of a particular product. The GATT currently allows countries to take action against such import surges in order to safeguard threatened domestic producers. In recent years, however, the major industrial nations have increasingly ignored the GATT mechanisms in such circumstances, preferring instead bilaterally negotiated arrangements by which other countries have agreed "voluntarily" to limit their exports of the product in question. The code was to have brought safeguard actions back into the GATT framework.

The main obstacle to agreement on this code has been the issue of selective safeguard actions. The European nations have insisted on the right to apply safeguard actions against imports from specific countries. Although they have not taken clear stands on this issue, the United States and Japan are reported to be willing to accept the EC position. Less developed countries, however, fearing that they would become the chief targets of such selective safeguards, have insisted on the maintenance of the current GATT requirement that safeguard actions be applied equally against imports from all sources. To date, no way around this impasse has been found.

The other uncompleted code deals with commercial counterfeiting. Negotiations on this code began much later than on the other codes, and negotiators are hopeful that some agreement will eventually be reached.

This chapter will outline briefly the provisions of the major codes and discuss their likely effects. It will also provide brief discussions of the negotiated changes in the GATT framework and of the changes in nontariff barriers affecting agricultural trade and trade in civil aircraft.

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1/ For a particularly good discussion of the problems of enforcing trade rules, see Robert E. Baldwin, The Multilateral Trade Negotiations: Toward Greater Liberalization? (Washington, D.C.: American Enterprise Institute, 1979).

## THE GOVERNMENT PROCUREMENT CODE

Article III of the GATT specifically exempts government procurement from the general provisions of that agreement. This exemption has left governments free to discriminate against foreign products in their procurement decisions, and most governments--including the U.S. government--have done so for many years. This discrimination has been accomplished through simple price preferences for domestic goods (as established, for example, in the United States by the Buy American Act of 1933), through a variety of less explicit barriers to foreign bidding for government contracts, and in some cases through outright exclusion of foreigners from bidding for government procurement contracts. 2/

The growth of government spending and the proliferation of partially or wholly owned government enterprises in recent years have sharply increased the share of total sales--and thus, potentially, the share of international trade--accounted for by government procurement. Many industries have been quick to recognize the opportunities for increased sales if they could compete on a more equal footing for foreign government contracts. The result has been growing pressure to negotiate international agreements making the government procurement process in all countries more open to foreign producers.

Sentiment in favor of such agreements has been particularly strong in the United States. This is so in part because governments purchase large quantities of the sort of highly sophisticated electronic, communications, and transportation equipment in the production of which U.S. producers often enjoy important competitive advantages over foreign producers. Further, because most foreign governments control relatively more of their respective economies than does the U.S. government, there is a widespread belief--unfortunately very difficult to establish quantitatively--that the opportunities for discrimination by foreign governments are much greater than the opportunities for such discrimination by the U.S. government. Whatever their opportunities, foreign governments are widely seen as discriminating more aggressively in favor of domestic products than does

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2/ For a discussion of the practices of various countries, see William R. Cline and others, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (Washington, D.C., The Brookings Institution, 1978), pp. 189-94.

the U.S. government. If this were in fact the case, then a multilateral opening of government procurement to international competition would clearly be in the U.S. interest.

The proposed code on government procurement calls upon all signatory governments, in making procurement decisions, to grant products originating in any other signatory country treatment "no less favorable" than that afforded to domestic products or to the products of any other country. Procurement by governments and by national entities under the "substantial control" of the government also comes under the provisions of the code. In addition, governments are required to make more open the process by which specifications are set, bids accepted, and contracts awarded. Governments accepting the code will be required to publish winning bids for procurement contracts and to review complaints of unfair treatment from foreign producers.

Excluded from the provisions of the code are contracts valued at less than 150,000 Special Drawing Rights (about \$190,000). This exclusion allows the continuation of U.S. programs granting special preferences in U.S. government procurement to small and minority-owned businesses and to businesses in depressed areas. Also excluded is all government procurement of military arms or of other goods essential to the maintenance of national security or "public morals, order and safety."

Intense negotiation has gone on over the national entities that are to be considered under the "substantial control" of the signatory governments, and thus subject to the provisions of the code. Each party to the agreement offered a list of its own national entities to which the code would apply, but the status of a few is still in question. The most important unresolved issue at present concerns the status of Nippon Telephone and Telegraph (NTT), the state-owned Japanese telephone company, which is a large purchaser of the sort of sophisticated electronic equipment that the United States excels in producing. U.S. negotiators have insisted that NTT procurement be covered by the code, but so far Japanese representatives have refused to open this potential market sufficiently to satisfy the United States. Talks on the subject are continuing. Perhaps the most significant U.S. exclusion from the proposed code is the Tennessee Valley Authority.

The code also calls for the establishment of a committee composed of representatives of each of the parties to the agreement to monitor compliance with the code. In cases of disputes

that cannot be settled by consultation among the parties involved, the committee can appoint a panel to examine the dispute and can issue whatever rulings it deems appropriate. No enforcement power beyond the issuing of a ruling is available to the committee.

The government procurement code is the only code the direct effects of which can even partially be estimated. Even so, the uncertainties inherent in the estimates are so large that little faith should be placed in their accuracy. They are, nonetheless, useful in illustrating the general nature of the code's effects.

All attempts at estimating the effects of the procurement code are based on the assumption that, if special preferences for domestic products were eliminated, imports would account for roughly the same share of government procurement of a given class of goods as they do of private procurement of that same class of goods. If one knew the shares of imports in government procurement and in the total economy, one could then estimate the potential market for new imports after implementation of the code. Unfortunately, available information about the sectoral composition and country of origin of government purchases is not sufficiently detailed to allow a direct application of this approach. A number of important simplifications and assumptions need to be made, and, because there is considerable latitude in making these assumptions, estimates can vary widely.

The U.S. Office of the Special Representative for Trade Negotiations (STR) has "conservatively" estimated that implementation of the government procurement code will result in a net increase of between 50,000 and 100,000 jobs in the United States. <sup>3/</sup> On the other hand, Deardorff and Stern estimate that the net employment gain in the United States resulting from implementation of the code will be 2,600 jobs. <sup>4/</sup> Further, if the effects of likely changes in exchange rates are included in the analysis, the net gain drops to 1,600 jobs.

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<sup>3/</sup> Office of the Special Representative for Trade Negotiations, Government Procurement Code: Impact on U.S. Trade and Employment (June 15, 1979; processed).

<sup>4/</sup> Alan V. Deardorff and Robert M. Stern, An Economic Analysis of the Effects of the Tokyo Round of Multilateral Trade Negotiations on the United States and on Other Major Industrialized Countries, report prepared for the Subcommittee on

Part of the difference between these estimates is apparently due to the use of different techniques in assessing the likely level of government imports in the absence of preferential treatment for domestic goods. The STR estimate assumes that the average share of imports in government procurement (excluding petroleum and agricultural products) would be the same as the share of imports in all purchases (again excluding petroleum and agricultural products). Deardorff and Stern, on the other hand, disaggregate government procurement into its major components and perform a similar analysis for each component separately, adding the gains in each sector to arrive at a total figure. Their results suffer somewhat because the information on the product classification of government procurement dates from the period 1967-1971 and is perhaps somewhat out of date. It is likely, nonetheless, that the composition of government procurement today is more like it was in 1967-1971 than it is like the composition of total purchases. On this basis, one might prefer the Deardorff and Stern estimate.

A more problematic difference between the two studies arises from differing assumptions about the present share of foreign products in government procurement. Reliable data on this share are not available, and therefore some assumption is necessary.

Deardorff and Stern assume that at present governments purchase no foreign goods. The effect of this assumption is to overstate the increase in each country's imports that will result from implementation of the government procurement code. New U.S. exports will be overstated, but so will new U.S. imports. The effect of this assumption on the net U.S. trade position is not clear. The STR study, on the other hand, assumes that U.S. price preferences for domestic products (ranging from 6 to 12 percent) have the same average effect as a 10 percent tariff on all U.S. government purchases of foreign products. The study assumes--without any supporting evidence--that foreign preferences are the equivalent of a 50 percent price preference.

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International Trade, Senate Committee on Finance, 96:1 (June 1979), pp. 80-85. Their estimate is of changes in employment attributable only to the proposed government procurement code. In combination with the tariff reductions, the effects of the code would probably be somewhat greater.

There is no way of knowing which of these approaches is closer to the truth. The simplification that Deardorff and Stern use, while certainly not exactly correct, may be a fair representation of the present situation. Much hinges on whether the 6 to 12 percent price preferences now given by the U.S. government are sufficient to eliminate nearly all U.S. government procurement of foreign goods. If so, their estimate would be the more reliable. Unfortunately, since there is no evidence on this matter, one can conclude only that the true value lies somewhere between the two estimates.

Also of some interest are the sectoral and international distributions of gains and losses resulting from implementation of the government procurement code. Deardorff and Stern's estimates suggest that the sectors of the U.S. economy standing to gain the most from the code are those producing nonelectrical machinery, textiles, industrial chemicals, and agricultural products, while the sectors most likely to lose employment are those producing electrical machinery and plastic products. Interestingly, Deardorff and Stern's estimates cast some doubt on the conventional wisdom that the United States will be the largest beneficiary of more open government procurement. In the case of flexible exchange rates, both the European Community and Japan gain marginally more jobs than does the United States. In the fixed-rate case, Japanese and EC gains are both nearly nine times the U.S. gain.

#### THE SUBSIDIES/COUNTERVAILING DUTIES CODE

The GATT has always prohibited the payment of government subsidies designed to promote exports at the expense of other signatories to the agreement. It has also, however, specifically allowed the payment of government subsidies "exclusively to domestic producers." The dividing line between purely domestic subsidies and subsidies for export items is necessarily vague; all subsidies affect the costs of production and could therefore influence the level of imports or exports of specific products. When a subsidy is determined to cause or threaten injury to the interests of another country, the country granting the subsidy is required to "discuss the possibility of limiting the subsidy." Injured countries are also permitted to impose countervailing duties--duties intended to remove the advantage bestowed by a subsidy--on imports of subsidized products, but only after determining that the subsidy is causing or threatening to cause material injury to industries in the importing country.

In recent years, the GATT provisions governing subsidies have been widely believed to be inadequate. This belief arose in part because of increased government involvement in economic matters; a variety of programs to increase employment, encourage regional development, promote research and development, and provide increased job security have greatly increased the opportunity for both direct and indirect subsidization. With the expansion of world trade, moreover, the effects of these subsidies on international trade have been more keenly felt. Because subsidization is in many cases quite subtle and indirect, many governments have been loath to seek corrective measures through GATT mechanisms. Indeed, since its establishment in 1948, only 35 petitions alleging injury from any cause have been reviewed by the contracting parties to the GATT. Finally, although the GATT provides some recourse for nations importing subsidized goods, it contains no provisions for dealing with domestic subsidization of import-competing products.

The new subsidies/countervailing duties code seeks to strengthen and clarify international policy toward subsidies. It recognizes that governments may provide subsidies for legitimate purposes. In general, subsidies can be used to "promote social and economic policy objectives," such as aid for depressed regions of a country, the maintenance of employment, and the promotion of research and development. The signatories to the code, however, undertake to avoid subsidies that would cause injury to domestic industries of other signatories or displace their products in the markets of the subsidizing country, nullify the benefits granted by tariff concessions, or prejudice the interests of other suppliers to third-country markets. To aid in identifying such subsidies, the code contains an "Illustrative List of Export Subsidies" that are to be avoided.

The code also reaffirms the GATT principle that countervailing duties be imposed only when subsidies threaten injury to domestic industries. The United States, alone among the major industrial countries, now imposes countervailing duties without requiring a determination of injury. In agreeing to the new code, the United States has agreed henceforth to require such an "injury test" before imposing countervailing duties.

The code outlines the considerations that should enter into a finding of injury and provides guidelines for the size and duration of countervailing duties. Exactly what should constitute injury, however, has been the subject of extensive debate and discussion both among the negotiators in Geneva and

between the U.S. Congress and the Administration. Both the code and the relevant U.S. implementing legislation require that "material" injury be determined before countervailing duties are imposed. U.S. implementing legislation further defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant." Such definitions will acquire meaning only as a body of precedent is built up over a period of years.

The code provides special treatment for less developed countries, specifically exempting them from the prohibition against export subsidies. In return, they are called upon to enter into "commitments" to eliminate these subsidies as their economic development allows. The code also establishes a committee of signatories to consider complaints about compliance with the terms of the code.

The subsidies/countervailing duties code is not expected to have an immediate effect on U.S. imports or exports. Exercising powers granted to it by the Trade Act of 1974, the U.S. Treasury has waived most countervailing duties for the past few years, so the institution of an injury test should not lead to any widespread elimination of countervailing duties. Much will depend on how the injury test is applied in the future. In the longer run, the code could help to prevent the outbreak of trade wars resulting from increasing government involvement in domestic economic affairs. It could also serve to limit the loss of U.S. export markets as a result of subsidized foreign (particularly EC) exports of surplus agricultural commodities.

#### THE ANTI-DUMPING CODE

A problem closely related to the treatment of export subsidies is that of dumping--the sale of products in foreign markets for less than they are sold in domestic markets. Such dumping can often be accomplished without any direct or demonstrable government subsidy. The effects of such practices on producers of similar products in importing countries are much the same as the effects of a straightforward government subsidy. Most countries now impose special duties on items that are dumped in their domestic markets, and Article VI of the GATT allows such duties in cases in which the dumping causes or threatens to cause material injury to a domestic industry.

The anti-dumping code agreed to in the Tokyo Round is for the most part a clarification of existing GATT anti-dumping rules.

It lays out in more detail the definition of dumping, the nature of the injury that must be shown before anti-dumping duties can be imposed, the types of action that governments may take to prevent dumping, and the procedures that should be followed before any action is taken. In addition, the code establishes a committee of signatories to the code to facilitate the settlement of disputes and to monitor the operation of the code.

The implementation of the anti-dumping code should have little immediate effect on the United States. Current U.S. practice is generally in conformance with the provisions of the code, and no major changes in U.S. laws are anticipated. Similarly, few U.S. products are subject to anti-dumping duties in other countries, so that the new code should not significantly affect U.S. export prospects. The principal value of the code will lie in providing clearer guidelines for the handling of future cases of alleged dumping.

#### THE CUSTOMS VALUATION CODE

Tariff rate reductions alone do not always lead to reductions in duties charged on imported goods. By adjusting the method for determining the value of imported goods, customs officials can increase duties independently of tariff rates. U.S. exporters have often complained that foreign customs officials arbitrarily inflate the value of U.S. products, thus requiring higher duties, and that uncertainties over foreign customs valuation procedures complicate the transaction of international business. <sup>5/</sup>

Foreign exporters have in turn criticized U.S. customs valuation methods. The United States, they point out, uses nine different methods of customs valuation, which, they allege, are not applied uniformly. One of these nine methods, the so-called American Selling Price (ASP) method of customs valuation, has been singled out as particularly unfair. Under this method, a few commodities--benzenoid chemicals, rubber-soled footwear, canned clams, and certain knit gloves--are valued for customs purposes not, as is usually the case, on the basis of their export value, but on the basis of the price of similar goods produced in the United States. The use of ASP valuations has

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<sup>5/</sup> Ibid., pp. 85-89.

increased duties on these products well above the levels implied by current nominal tariff rates.

The customs valuation code is intended to reduce the arbitrariness of various national methods of customs valuation. To this end, it establishes the "transaction value" of a product--"the price actually paid or payable for the goods when sold for export" plus certain other costs and expenses associated with the transaction--as the primary method for valuing imports. The code also identifies four alternative methods for valuation that are to be used in a specified order of preference when for some reason the primary method is not applicable. In agreeing to this code, the United States has agreed to abandon its use of the ASP method of customs valuation. This code, like the other codes, also establishes a committee of signatories to facilitate the settlement of disputes concerning the code's provisions.

The code, if vigorously enforced, should simplify and clarify customs valuation procedures. It is unlikely, however, to bring about any near-term changes in trade flows, since most duties affected by the code will be replaced with equivalent tariffs computed on new bases. The United States, for example, will increase the nominal tariff rates on nearly all ASP items, so that the duties actually charged will be about the same as before. The few reductions have been included in the estimates of the effects of tariff changes detailed in Chapter II.

#### THE CODE ON TECHNICAL BARRIERS TO TRADE (STANDARDS CODE)

Among the national trade policies that are most vexatious to foreign producers are those setting standards for the quality, performance, safety, or labeling of imported products. More than half of the complaints of unfair treatment filed with the Office of the Special Representative for Trade Negotiations by U.S. exporters have concerned matters of standards.<sup>6/</sup> While few would deny the right of governments to apply reasonable standards to protect their domestic consumers from foreign products of inadequate quality, there has been an increasing sense that standards are often applied in ways that seriously disrupt trade. In some cases, exporters see the standards as frivolous, restricting

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<sup>6/</sup> Ibid., pp. 69-72.

imports with no clear benefit to consumers. In other cases, goods thought by exporters to be in compliance with the relevant standards have been denied entry because they infringed details of standards that had not been completely understood. In still other cases, goods are required to undergo expensive certification procedures, sometimes duplicative of procedures already satisfied in other countries. The possibilities for restricting trade through the use of technical barriers are obviously quite various.

The most important aspect of the standards code is the recognition that national standards should not be allowed to disrupt trade unnecessarily. The code calls on all its adherents to ensure that standards are not adopted or applied with a view to creating obstacles to trade. It states, further, that whatever standards are adopted must be applied without discrimination: imported goods are to be subject to the same standards as domestic goods, and imports from all sources are to be treated similarly. Parties to the agreement are required to adopt international standards whenever possible, to publish details of their own standards whenever these standards are different from international norms, and to provide a point of enquiry where questions regarding standards can be handled expeditiously. Whenever possible, signatories will accept certification of products issued by other parties to the agreement. The code also establishes a committee of signatories to monitor compliance with its provisions and to aid in settlement of disputes.

This code is not expected to bring about any direct near-term changes in trade flows. In the longer run, however, it should allow trade to expand as technical obstacles are gradually reduced. Obstacles of this sort are particularly important for trade in technologically sophisticated items. Because the United States is a major producer and exporter of such items, it may be expected to reap particular advantages from the implementation of the code. Much of the code's effectiveness will depend on just how the provisions are implemented and enforced. At present, there is no way of estimating its specific effects.

#### THE IMPORT LICENSING CODE

A final code agreed to in Geneva deals with import licensing. The licensing of imports is used by many countries, particularly less developed countries, to control the use of scarce foreign exchange. In the past, licensing has sometimes been seen as a

means of discriminating against imports from particular countries. Such practices as rejecting applications for import licenses because of minor clerical errors or simply delaying unreasonably the granting of licenses have also been the subject of widespread criticism.

The import licensing code requires that procedures be as simple, open, and "transparent" as possible, and applied in a nondiscriminatory manner to products from all signatory countries. It also prohibits the rejection of applications for import licenses because of minor errors in documentation, and the refusal of imports because of minor variations in quantity or weight from amounts designated in the license. This code, too, establishes a committee of signatories to facilitate consultation and dispute settlement.

The import licensing code is not expected to have a major impact on U.S. trade in the near term.

#### REFORM OF THE GATT FRAMEWORK

The framework agreement is actually a set of five separate agreements. Three of these are aimed at making the GATT better meet the needs of the less developed countries (LDCs). The fourth is an Understanding Regarding Notification, Consultation, Dispute Settlement, and Surveillance. The fifth is an agreement to review the role of export controls after the conclusion of the Tokyo Round negotiations.

While the GATT currently makes some provision for the special needs of LDCs, it is primarily an agreement regulating trade among developed countries. The reforms of the GATT framework agreed to in Geneva enable governments to provide special and preferential treatment to LDCs without having to make the same concessions to developed countries. This is a deviation from the general GATT principle of nondiscrimination, which requires that a concession granted by one contracting party to another should also automatically be granted to all contracting parties. These reforms also reaffirm the principle that LDCs are not expected to make fully reciprocal concessions to the developed countries. In return, the less developed countries have agreed to a "graduation principle." This means that, as economic development progresses, LDCs agree gradually to take on more of the obligations and responsibilities set out under the GATT. The reforms also make available to LDCs a variety of trade measures (other than the

quantitative restrictions now allowed by the GATT) that can be used to correct balance-of-payments problems. The less developed countries, however, are expected to use whatever measures are least disruptive to international trade. Another agreement will allow LDCs to take restrictive measures against imports in order to promote the development of their infant industries. LDCs will no longer have to give prior notification of such measures, but they will still be required to provide compensation to the affected countries if injury results from the use of these measures.

Also contained in the agreement to reform the framework is an Understanding Regarding Notification, Consultation, Dispute Settlement, and Surveillance. This understanding is designed to make clearer and more stringent the rules for notifying the contracting parties of the adoption of restrictive trade measures. Further, it details the procedures for consultation concerning the operation of the GATT and outlines the surveillance role and the technical cooperation services that are to be provided by the GATT Secretariat in matters over which disagreements arise among contracting parties. This agreement also states more clearly the role that special panels and working groups are to play in dispute settlement. It suggests time limits within which the panels are to render their recommendations and sets the criteria that are to be used in selecting panel members.

The framework reforms should not have a major effect on U.S. trade.

#### AGREEMENTS AFFECTING AGRICULTURE

The United States is a major exporter of agricultural goods and would stand to benefit greatly from significant reductions in barriers to trade in agricultural products. In both the Kennedy and the Tokyo Rounds, the United States made clear to its trading partners that liberalizing trade in agricultural goods was an important element of the U.S. negotiating strategy. Ambassador Strauss, along with other U.S. negotiators, repeatedly stressed that whether the current round would be judged a success or failure by the United States and whether the United States would ultimately agree to the entire package of trade measures would depend in large part on how much progress could be made on liberalizing trade in agricultural commodities.

Tariff changes negotiated in Geneva cover a wide variety of agricultural items. Most important for the United States are reductions in EC, Canadian, and Japanese tariffs on meats, Korean tariffs on oilseeds, and Japanese tariffs on fruits and vegetables. The largest U.S. tariff concessions are on imports of live cattle and pork from Canada and of fresh fruits and vegetables from Mexico.

But more important for agriculture than tariff reductions are a number of nontariff barrier concessions that were negotiated as part of the Tokyo Round. Fully 80 percent of the total increase in U.S. agricultural exports that will result from the Tokyo Round agreements will arise from relaxed nontariff restrictions. Similarly, nontariff measures account for 70 percent of the increase in agricultural imports the United States has agreed to accept.

The major nontariff concessions granted to the United States were made by the EC, Japan, and Canada, while some smaller but important concessions were also granted by Mexico and several non-EC European countries. The EC, Japan, Switzerland, and Austria have all agreed to expand their quotas for U.S. exports of high-quality beef. The EC has also agreed to allow increased imports of high-quality, flue-cured American tobaccos, as have Australia, New Zealand, and Canada. Japan has also agreed to allow increased imports of fresh oranges and concentrated orange and grapefruit juices from the United States. Finally, Mexico has agreed to expand its imports of U.S. soybean meal by lifting all quantitative restrictions.

The major nontariff concession made by the United States is a relaxation of restrictions on cheese imports. Under current arrangements, the United States maintains a very restrictive quota for most kinds of imported cheese. Unlimited amounts of cheese in excess of this quota can, however, be imported, but only at prices well above the prevailing support price for cheese maintained by the U.S. Commodity Credit Corporation. The new arrangement will eliminate completely the import of extra-quota cheese, making all cheese imports (with the exception of some specialty cheeses) subject to an expanded quota.

The net result of this change will be an increase in U.S. cheese imports--at least in the short run. In recent years, the amount of cheese entering the United States in excess of the current quotas has been growing rapidly and presumably would continue to do so if such extra-quota imports were allowed. The

new quota, although it allows a higher level of imports in the short term, will effectively place a ceiling on future cheese imports. Thus, it appears that U.S. actions will allow more cheese imports in the short term, but the new arrangements will prove more restrictive in the future than the current system would have been.

The U.S. Department of Agriculture (USDA) has prepared estimates of the effect of the trade agreements on U.S. imports and exports of agricultural goods. 7/ USDA estimates that primary agricultural exports will increase by about \$510 million (measured in 1976 dollars) by 1987, when all the agreements will be fully implemented. Approximately \$406 million of this total stems from non-tariff concessions granted to the United States and \$104 million from tariff reductions. U.S. concessions, the USDA estimates, will result in \$175 million in increased U.S. agricultural imports. Of this total, the expansion of quotas on cheese will account for \$121 million, or about 70 percent. 8/

In a study prepared for the Senate Finance Committee, James P. Houck of the University of Minnesota arrives at similar conclusions. 9/ He estimates that U.S. agricultural exports will increase by \$462 million and imports by \$106 million. The basic

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7/ U.S. Department of Agriculture, Foreign Agricultural Service, The MTN and American Agriculture, revised (June 6, 1979; processed) and The MTN and American Agriculture (Concessions Provided) (undated; processed). These estimates are based on an assumption of fixed exchange rates and reflect the gains to agriculture from agricultural concessions only.

8/ This total is calculated by taking the difference in the amount of cheese imports that will be allowed by the new quota and the level of imports that prevailed in 1976. If, however, 1978 were to be used as a base year instead of 1976, the effect would appear much smaller--only \$56 million--because of the large increase in cheese imports in the intervening years. Net U.S. exports should increase by about \$336 million.

9/ James P. Houck, Tokyo-Geneva Round: Its Relation to U.S. Agriculture, report prepared for the Subcommittee on International Trade, Senate Committee on Finance, 96:1 (June 1979). Houck's estimates also are based on an assumption of fixed exchange rates.

reason why Houck's import figures are lower than those presented by USDA is that he uses 1978 trade volumes to calculate the increase in cheese imports that will result from U.S. concessions. He estimates that cheese imports will increase by \$66 million, while USDA, using 1976 trade volumes, estimates this increase to be about twice as high.

Deardorff and Stern have estimated that, assuming flexible exchange rates, agricultural employment will increase by a net 42,000 jobs as a consequence of changes in agricultural nontariff barriers. Total employment in the United States, however, will increase by only 11,000 jobs, since some of the new job opportunities in the agricultural sector will be filled by workers leaving jobs in other sectors. These estimates are roughly consistent with those made by Houck.

Two additional agreements reached in Geneva deal specifically with bovine meat and dairy products. These agreements established an International Meat Council and an International Dairy Products Council to facilitate the exchange of information and to promote consultation on matters of international concern. No mechanisms are provided, however, for implementing any decisions taken by these councils. The agreements also set minimum prices at which particular meat and dairy products may be traded, but these are far below current world prices and thus are expected to have no real effect.

#### THE AGREEMENT ON TRADE IN CIVIL AIRCRAFT

One other agreement affecting specific products was reached in Geneva--concerning trade in civil aircraft. In most respects, the agreement on trade in civil aircraft is simply an elaboration of other codes agreed to in Geneva, noting specifically how each applies to civil aircraft.

The agreement eliminates all tariffs on nonmilitary aircraft, engines, aircraft parts, and flight simulators. The parties to the agreement also undertake to purchase aircraft for their national airlines purely on the basis of competitive price, quality, and delivery time. Further, the signatories note that governments are often necessarily deeply involved in national aircraft industries, and they therefore agree to use care in avoiding export subsidies or other practices that could hamper competitive trade.

Because the United States is the world's primary producer of civil aircraft, it can be expected to gain from freer trade in civil aircraft. How large the gain will be is impossible to estimate at this time. The elimination of tariffs on aircraft and parts required by the agreement is not fully reflected in the tariff computations cited earlier. Much will also depend on the future growth of the market for civil aircraft and on the rate at which aircraft industries in other countries develop.

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## CHAPTER IV. COMBINED EFFECTS OF AGREEMENTS ON TARIFFS AND NONTARIFF MEASURES

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The agreements negotiated in the Tokyo Round are diverse, and their effects will be felt in a variety of ways. Some of the effects are amenable to economic analysis, and some are not. Some will flow directly from the tariff reductions that have been negotiated, and some will depend on decisions yet to be made concerning the manner in which the new codes are to be implemented and enforced. Some of the effects of the Tokyo Round agreements will be observable almost immediately as the codes are implemented; some will be felt over the next eight or ten years as tariffs are reduced; and some will be felt only as the longer-term processes of economic growth are changed by changing trade patterns. What follows is an attempt to sum up what can be said now about the ultimate effects of the entire package of Tokyo Round agreements.

### EMPLOYMENT EFFECTS

Because the effects of changes in tariffs and nontariff measures interact with each other, the overall employment effects of these changes in the United States will be somewhat different than the sum of the individual changes considered separately. The principal finding of studies of the effects of individual elements of the Tokyo Round package, however, remains unchanged: The employment effects of the entire Tokyo Round package of agreements are very small.

Only Deardorff and Stern have calculated the combined employment effects of the various parts of the Tokyo Round agreements. Their estimates include the effects of tariff reductions and changes in two types of nontariff measures--those affecting agriculture and government procurement. 1/ They estimate a net

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1/ Alan V. Deardorff and Robert M. Stern, An Economic Analysis of the Effects of the Tokyo Round of Multilateral Trade Negotiations on the United States and the Other Major Industrialized

increase in U.S. employment of about 15,000 jobs. This overall net increase in jobs will result from an increase in agricultural employment of 55,000, offsetting a net loss of 40,000 jobs in other sectors of the economy. Although these numbers may seem large in absolute terms, they represent only small fractions of the entire U.S. labor force. The net gain amounts to only about 0.02 percent of total U.S. employment in 1976, the year that serves as the base for these estimates. Agricultural employment will increase by about 1.7 percent, and nonagricultural employment will decline by less than 0.05 percent. Within the nonagricultural sector, the distribution of gains and losses among various industries is roughly the same as that resulting from tariff reductions alone: The industries enjoying increased employment opportunities will be those employing sophisticated, modern technologies and highly skilled workers, while those experiencing reduced employment opportunities will be labor-intensive industries and those with less sophisticated technologies.

#### PRICE AND WELFARE EFFECTS

Among the benefits claimed for the Tokyo Round agreements is that the prices paid for imported commodities will fall and with them the overall price level. Further, lower prices for imported goods will increase competitive pressure on domestic producers of similar goods, limiting their ability to raise prices.

As Table 4 shows, tariff reductions could bring about a maximum reduction in U.S. import prices of about 1 percent. Such a reduction in import prices might be expected to lower U.S. consumer prices by about 0.2 percent. This would come about, however, only if the full amount of tariff reductions were passed along to U.S. consumers. It is entirely possible that the export prices of some foreign goods will rise by part (and in some cases all) of the amount of tariff reductions. If these increases are less than the amount of the tariff reductions, the foreign goods will still sell for less in U.S. markets than they did before the tariff reductions. Foreign producers will, however, be able to

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Countries, study prepared for the Subcommittee on International Trade, Senate Committee on Finance, 96:1 (June 1979), pp. 92-108.

keep for themselves part of the benefit arising from the tariff reductions. (It is, of course, possible that export prices of U.S. products will also rise as a result of foreign tariff reductions. In this way, U.S. producers will keep for themselves part of the benefits that may accrue to foreign consumers.)

Also complicating the estimation of the price effects of trade liberalization are the effects that liberalization may have on exchange rates. If trade liberalization increases a country's imports more than its exports, one would expect the value of its currency to fall. This devaluation of the currency will increase the price of imports and erode somewhat the price reductions brought about by lowered tariffs. If liberalization increases exports more than imports, the process will yield the opposite result.

Deardorff and Stern estimate that the combination of tariff reductions and changes in agricultural and government procurement nontariff measures will result in a depreciation of the dollar of some 0.2 percent. This depreciation, and export price increases on the part of foreign producers, combine to eliminate about two-thirds of the maximum potential reduction in U.S. prices resulting from the Tokyo Round agreements. They estimate the remaining price reduction to be only 0.07 percent.

The Office of the Special Representative for Trade Negotiations is somewhat more optimistic about the price effects of the Tokyo Round agreements. STR estimates that the entire package should reduce consumer prices in the United States by 0.4 to 0.6 percent. <sup>2/</sup> The method by which this estimate is arrived at is not spelled out in great detail, although a small part of the improvement may arise from an estimated 0.4 percent appreciation of the dollar resulting from the Tokyo Round agreements. The figures presented in Table 4 of this paper and the estimates derived by Deardorff and Stern suggest, however, that STR's estimates may be too high.

The success of U.S. negotiators in protecting particularly vulnerable U.S. industries from import competition has come partly at the expense of U.S. consumers. The industries given special treatment are vulnerable precisely because foreigners are able to

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<sup>2/</sup> Office of the Special Trade Representative, "Impact of the MTN on Inflation," Press Release (May 11, 1979).

produce similar products at lower cost than domestic firms can. By maintaining barriers to the import of foreign goods, the United States is foregoing the opportunity to replace higher-priced, domestically produced goods with cheaper foreign ones. Had less strenuous efforts been made to protect vulnerable U.S. industries, the favorable price effects of the Tokyo Round agreements would have been greater.

The total gain to the United States of the Tokyo Round agreements is a combination of the gains accruing to consumers through lower prices and the gains accruing to producers through increased export sales. Offsetting these gains are the losses suffered by particular industries forced to reduce output. Deardorff and Stern have made some estimates of the net welfare gain to the United States resulting from the combination of Tokyo Round tariff reductions, reductions of agricultural non-tariff barriers, and implementation of the government procurement code. They estimate that these gains would amount to between \$1 billion and \$1.5 billion per year in 1976 dollars. These estimates do not include the one-time costs of moving workers or capital out of declining industries and into growing industries. Other authors also have estimated these costs to be in the neighborhood of \$1 billion.<sup>3/</sup> Thus one year of full implementation of the Tokyo Round agreements should suffice to pay the costs of the adjustments necessitated by trade liberalization.

These estimates of net welfare gain include only the direct, near-term effects of the Tokyo Round agreements. The agreements are likely to have longer-term effects--expansion of trade, increased competition and therefore more rapid innovation, larger-scale, more-efficient production, increased international specialization--that will far outweigh these direct effects. Such long-term effects are necessarily excluded from most estimates of net benefits. Some observers have suggested that, if these long-term effects are included, the total welfare

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<sup>3/</sup> See William R. Cline and others, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (Washington, D.C.: The Brookings Institution, 1978), p. 130; and Robert E. Baldwin, John H. Mutti, and J. David Richardson, "Welfare Effects on the United States of a Significant Multilateral Tariff Reduction" (University of Wisconsin, Madison: April 1978; processed), pp. 21-22.

gain to the United States could be as high as \$10 billion per year. 4/

#### INTERNATIONAL POLITICAL EFFECTS

As is the case with any major multilateral undertaking, the Tokyo Round negotiations have had an important political dimension, and it may be that the most important results of the Tokyo Round agreements will lie in their effect on the political climate that produces national trade policies.

For a variety of reasons--disappointing economic growth in the industrialized world, structural changes in the world economy, and increased government involvement in heretofore private commercial activities--sentiment for protectionism has been rising throughout the developed world. There seems little reason to expect that its underlying causes will weaken significantly in the near future. Many observers fear that, without some formal steps toward liberalized trade, these sentiments will continue to grow stronger, leading to a proliferation of new trade barriers and a subsequent decline in world trade. In a sense, the Tokyo Round agreements may be important not so much for what they will accomplish as for what they will prevent.

The Tokyo Round agreements may also have implications for future international cooperation on a number of economic and political issues. The trade talks provided only one of many settings in which the United States could seek economic and political cooperation with the other developed countries. Continued cooperation with these countries is essential for the furtherance of many U.S. aims. The success of this round--extremely complex and involving many competing national objectives--should provide an impetus to further cooperative enterprises.

Similarly, the trade talks have served as an important link between the industrialized and the less developed countries--and particularly between the industrialized countries and the more advanced LDCs, which have the most to gain from increased access

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4/ See, for example, William R. Cline, statement before the Subcommittee on International Finance, Senate Committee on Banking, Housing, and Urban Affairs, 96:1 (April 5, 1979; processed).

to markets in the industrialized world. For these countries, the new role of international trader brings with it new opportunities for economic growth, new domestic political and economic problems, and new responsibilities. The United States and its industrialized allies have a strong interest in how the rapidly developing countries meet these opportunities, problems, and responsibilities. They also have, therefore, a strong interest in maintaining close contact with these countries through such channels as the trade negotiations. That full agreement could not be reached in the Tokyo Round between developed and less developed countries must stand as a disappointment, though there is hope that at least some of the LDCs will eventually subscribe to the entire package of Tokyo Round agreements.

#### WHAT THE TOKYO ROUND DID NOT ACCOMPLISH

As the preceding sections have illustrated, the Tokyo Round agreements constitute major progress toward reducing at least some barriers to international trade. Of particular importance is the progress that has been made concerning nontariff barriers--progress unprecedented in earlier rounds of trade negotiations. The accomplishments of the negotiators in Geneva are all the more impressive because they have come during a period of international economic uncertainty and structural change that has placed strains on all economies. The pressures for protectionism arising from such uncertainty and change are strong, and to an important degree the participants in the Tokyo Round have withstood them.

But the Tokyo Round did not accomplish all that some observers had hoped for. This is not surprising, of course, in negotiations of such size and complexity. Nonetheless, an appropriate way to conclude a discussion of the accomplishments of the Tokyo Round may be to consider briefly what the negotiators did not accomplish.

Some of the failings seem relatively minor and can easily be set aside. Tariff reductions fell short of the 60 percent across-the-board cut originally proposed by the United States, but tariffs were already very low by historical standards; the gains from further reductions do not appear to be great. The codes for the conduct of international trade might have been more specific in detailing acceptable and nonacceptable practices, but few would argue that they are not important first steps or that they will not provide some new grounds for resisting unfair trade practices. The inability to reach agreement on a commercial counterfeiting

code has been disappointing, particularly to U.S. producers of widely known and copied designs, but there appear to be no serious obstacles to the conclusion of such an agreement and it seems likely that one will come in time.

Much more disappointing has been the failure to reach agreement on a safeguards code. In the absence of effective safeguard procedures, most industrial countries have turned in recent years to bilaterally negotiated "orderly marketing arrangements" and "voluntary" export restraints. Many have criticized such arrangements because they violate the general GATT principle of nondiscrimination; these arrangements restrict the exports of some countries but not of others. Nor are these arrangements subject to even the current highly imperfect procedures for international review provided by the GATT; an often-heard complaint is that large, powerful nations can too easily dictate the terms of such agreements to smaller, weaker nations.

The failure to achieve agreement on a safeguards code is in some respects only one aspect of a more general failure of the Tokyo Round participants to make any systematic progress on the general issue of quantitative restrictions. A number of specific quotas were removed or expanded, but no attempt was made to draw up guidelines for the use of quantitative restrictions or to negotiate their eventual elimination. Indeed, the Trade Act of 1974 prohibited U.S. negotiators from agreeing even to tariff reductions on items now subject to orderly marketing arrangements, a particular form of quantitative restriction.

This failure in the area of quantitative restrictions is a particular disappointment to the less developed countries. The products now subject to such restrictions--textiles, footwear, and television sets are the most important--are in many cases exclusively exports of less developed countries. The removal of these barriers would be the most important trade concession that the developed countries could make to the LDCs. That no progress was made in this area must be seen as contributing to the dissatisfaction that led most LDCs, at least for the present, to reject the Tokyo Round package.

From the point of view of the developed countries, the failure to reach agreement with the LDCs must be viewed as a disappointment. In 1978, the latter accounted for 37 percent of U.S. merchandise exports, and they constitute the most rapidly growing markets for U.S. products. The problems associated with development have, however, forced these countries to adopt a

wide variety of policies that affect their international trade; many of these practices are seen as inimical to the interests of other trading countries. Further, a number of the most advanced LDCs are emerging as major exporters. Their output is already threatening some established industries in the industrialized world, and they have frequently been accused of unfair trade practices. Without the accession of the LDCs, the Tokyo Round agreements offer little opportunity for bringing new trading countries into the world trading system or for assuring that they bear the responsibilities of that system.

The talks also failed to strengthen significantly the GATT dispute settlement mechanism. Some creditable first steps have been taken, and perhaps it is unrealistic to expect sovereign states to subject themselves to a supranational entity even in very narrowly defined areas. Nonetheless, few observers expect the Tokyo Round to bring about any major improvement in what are generally regarded as inadequate GATT procedures for enforcement of the provisions of trade agreements and for the settling of disputes arising over these provisions.

Not on the agenda for the Tokyo Round, but of increasing concern, is the recent proliferation of large-scale, long-term bilateral trade arrangements. Often negotiated between an oil-producing country and an industrialized consumer of oil, these arrangements have the nature of barter: the industrialized country agrees to buy specified amounts of oil over an extended period (in some cases as long as ten years), and the oil-producing country agrees to buy the products of the industrialized country in sufficient quantity to pay for its oil exports. Such arrangements can be seriously at variance with the nondiscrimination principle in that they can close off important export markets to countries not party to the arrangements. This issue has yet to be discussed in a multilateral forum.

The Tokyo Round agreements represent an opportunity to reduce the distortions of trade flows created by government policies. But some critics complain that the concessions that governments have had to make to various domestic interest groups in order to assure acceptance of the agreements have introduced important new distortions. Supporters of the new government policies argue that in an imperfect trading system such concessions are necessary to protect the legitimate interests of domestic producers. In either view, however, these new trade-limiting policies mark a failure of the Tokyo Round negotiations. In one view, they represent backsliding from the goal of freer trade; in the other, they are

necessary patches to a trading environment insufficiently mended by the Tokyo Round. The new practices have led some observers to warn that the entire process of negotiating and approving the Tokyo Round agreements may not in fact lead to greater trade liberalization. 5/

In the United States, the list of such new government policies includes the Multifiber Arrangement limiting the imports of textiles into the United States. The agreement entered into force in 1974 and has been seen by some as required for approval of the Trade Act of 1974, which gave the President the authority to participate in the Tokyo Round talks. More recent examples include the tightening, as part of the Administration's Textile Program, of quantitative restrictions on textile imports (first established in the Multifiber Arrangement) and the institution of a "trigger price" mechanism to set a minimum price for imported steel. Other trade-restricting actions taken by the United States during the past year include the continuation of orderly marketing arrangements on specialty steel, the extension of an orderly marketing arrangement for color television sets to Taiwan and South Korea in addition to Japan, and Presidential approval of new restrictions on the importation of industrial fasteners, high-carbon ferrochromium, and clothespins.

Perhaps of greatest importance is the Administration's agreement to submit to the Congress a plan to reorganize the federal government's handling of trade matters. Critics of the present arrangement cite what they see as laxness on the part of the Treasury Department in imposing duties on subsidized imports and on foreign products allegedly being dumped in U.S. markets. The removal from Treasury jurisdiction of responsibility for such matters (an important element of a number of reorganization plans) is generally seen as a step toward a more restrictive U.S. trade stance.

#### CONCLUSION

The foregoing is not intended as criticism of the Tokyo Round agreements. It is clear both that much has been accomplished and

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5/ See, for example, Robert E. Baldwin, The Multilateral Trade Negotiations: Toward Greater Liberalization? (Washington, D.C.: American Enterprise Institute, 1979).

that those things left undone present very serious difficulties for international negotiation. This list of disappointments should serve as an indication of the issues that remain for further negotiations.